GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:7816
ANSWERED ON:17.05.2002
NPA NORMS FOR NBFCS
ADHIR RANJAN CHOWDHURY;SHYAMA SINGH

Will the Minister of FINANCE be pleased to state:

(a) whether Reserve Bank of India has recently revised NPA norms for Non-Banking Financial Companies;

(b) if so, the details thereof;

(c) whether NBFCs are not properly implementing the various guidelines of RBI to check NPAs;

(d) if so, the details of such violations which came to the notice of the Government during each of the last three years; and

(e) the steps taken and proposed to be taken by the Government to ensure that NBFCs properly follow the guidelines of the RBI ?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI GINGEE N. RAMACHANDRAN)

(a) & (b): The Reserve Bank of India has recently revised the NPA norms for NBFCs in regard to Call and Demand LoansThe Bank has directed that NBFCs should stipulate the cut off date within which repayment of the loan will be demanded/called up by the NBFC. Such a policy should be duly approved by its Board of Directors.In case the cut off date is beyond one year, the sanctioning authority should record specific reasons therefor. Policy should also stipulate the rate of interest as also the rests at which the interest is payable. If a moratorium is granted for payment of interest, the reasons therefor should also be mentioned. Policy should contain stipulation of a cut off date not exceeding six months for review of performance of the loan.

These directions have come into effect from 31st March, 2002. Thus RBI by the above stipulationhas brought call and demand loans extended by NBFCs too under the ambit of its Prudential Norms DirectionsNBFCs have beenfurther advised that the concept of `Past Due` contained in the Bank`s Prudential NormsDirections stand abolished with effect from Balance Sheetas on March 31, 2003.

(c) & (d): The periodical inspection of NBFCs by the Reserve Bank of India revealed that some of them were not complying with the Prudential Norms Directions relating to NPAs, such as asset classification, income recognition and provisioning.These deficiencies are advised to the erring NBFCs through a supervisory letter and their compliance obtained.Action is initiated against the recalcitrant NBFCs by issuing show cause notice for cancellation of their Certificate of Registration.

(e) : A comprehensive regulatory and supervisory mechanism for Non-Banking Financial Companies has been put in place by the Reserve Bank of India under the powers derived from the Reserve Bank of India Act, 1934 with a view to ensuring that they function on sound and healthy lines and to provide reasonable protection of the interest of depositors. This mechanism involves (a) on-site inspection of NBFCs, (b) off-site monitoring of NBFCs through periodic controlreturns from NBFCs using the state-of-art information technology, (c) an effective market intelligence work and (d) a system of submission of exception reports by auditors of NBFCs.The regulatory framework also includes, inter-alia, compulsory registration, maintenance of liquid assets, transfer of at least 20% of net profit to reserve fund and empowering RBI to issue directions to NBFCsRBI takes various actions against errant NBFCs for various defaults and contravention of provisions of the RBI Act and directions issued thereunder. Government has also introduced the Financial Companies Regulation Bill, 2000 in the Lok Sabha on 13th December, 2000.The Bill has been referred to the Standing Committee on Finance by the Hon`ble Speaker, Lok Sabha.